



## Key Factors Influencing Site Selection Decisions for Data Center Facilities



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In the information technology-driven world we live in today, the storage and processing of data is mission critical for most organizations. There are several key factors which impact a company's decision where to locate a new data center. Companies should thoroughly understand how different potential locations stack up with one another prior to making a final decision regarding where to site any type of facility. This is particularly true when it comes to a data center.

### **What are the key factors which influence a company's site selection decision for a new data center?**

The list will be effected by the locations of a company's other data center facilities, including back-up sites. Based upon our work for clients, the following list summarizes the most important factors influencing the location of data center facilities.

- 1. Availability and Cost of Electric Power:** Data centers use a large amount of electricity to run equipment. It is important for a company to select a site which provides multiple sources of power and has the current and future capacity to meet the company's needs. In addition, it is important to choose a location with affordable and predictable electric rates, on a comparative basis, to ensure the long-term viability of the prospective location.
- 2. Natural Disasters/Weather Events:** Generally speaking, companies determining the best location for new data center facilities carefully analyze the potential risk for natural disasters or disruptive weather events. Natural disasters/weather events such as hurricanes, floods, tornados and earthquakes create a lot of concern for data centers. These types of weather events can interrupt data center operations for a lengthy period of time, beyond what is addressed through contingency plans.
- 3. Property Tax Rates:** Data centers are capital intensive, and it is important to understand the impact of property taxes on the company's on-going operating costs. Property taxes can impact both real estate improvements and equipment investment, depending on the geography under consideration. With a thorough understanding of property tax issues early in the process, a company can make an informed decision regarding where to locate a data center.
- 4. Corporate Income Tax Rates:** Depending on a state's income tax apportionment structure, a data center can have a material impact on a company's corporate income tax liability. A number of states have moved to a single sales factor apportionment structure for corporate income taxes. These states have an advantage when it comes to data centers. States that continue to use a property, people and sales apportionment tax structure hit data center projects harder due to the fact that they are capital intensive.
- 5. Sales Taxes:** Sales tax rates and applicability to different types of transactions can have a material impact on data center projects. States that have high sales tax rates and/or sales taxes that apply to

several types of purchases can materially impact a capital intensive project such as a data center. As a result of sales taxes being charged at the time of transaction, projects are typically impacted well before they are in operation.

**6. Labor Availability/Quality:** It is critical for companies considering where to locate data center facilities to carefully analyze the availability and quality of labor in the different geographic areas under consideration for the project. Even though data centers typically do not require a large number of employees, a company must have confidence in its ability to secure a workforce capable of helping the company be successful in its operations.

**7. Construction Costs/Quality:** Due to the costs associated with the construction of data center facilities, companies must understand construction costs in the different geographic areas under consideration. The costs and quality of construction labor has a material impact on data center projects. .

**8. Telecommunications Infrastructure Availability:** It is vital for companies locating new data center facilities to have confidence in the ability to be served by redundant telecommunications infrastructure. Access to multiple points of presence, telecommunications “trunk” lines and national carriers is vital to any company operating a data center.

**9. Economic Development Incentives:** Anytime a company is considering a large capital investment project, economic development incentives are important to help the company lower project and operating costs. States which offer local and state incentives that help lower costs for a company have an advantage when it comes to data center projects. Economic development incentives can never offset a poor business climate, but they can help make the difference in where a data center project locates.

**10. Quality of Life Amenities:** Most data centers employ highly skilled workers. Highly skilled workers want to live and work in an environment where they can enjoy quality of life amenities. Data center workers typically enjoy many types of pursuits during leisure time, but outdoor recreational, music, museums, sports and culturally diverse amenities typically rate high on the list.

Another important part of the site selection evaluation process relates to the weighting of the key site selection factors. When assisting clients, our firm weights each criterion. We also assign a risk factor to each criterion. Our analytical approach allows our firm to tailor our analysis to meet each client’s need and adjust our formula as issues arise. We believe this allows us to provide the best recommendation possible to each client.

**Based upon the aforementioned site selection factors, what are the best regions for data center projects in the United States?** There are a number of locations that are excellent places to site new data centers, but a few stand out based upon how they stack up when considering the key factors. Based upon our experience and analysis, the following states should top the list when considering where to locate a data center.

**1. Utah:** Excellent workforce, favorable business climate, affordable and available electricity, good economic development incentive programs, low risk of natural disasters and excellent access to telecommunications infrastructure.

**2. Idaho:** Affordable and available electricity, low risk of natural disasters, reasonable tax structure, aggressive economic development incentive programs and excellent workforce.

**3. Texas (excluding Gulf Coast communities):** Favorable business climate, reasonable tax structure, affordable and available electricity, great access to telecommunications infrastructure, and excellent

economic development incentive programs.

4. **Oregon:** Very good tax structure, very good economic development incentive programs, low risk of natural disasters, great workforce and favorable business climate.

5. **Colorado:** Favorable business climate, good workforce, reasonable tax structure, affordable and available electricity and excellent access to telecommunications infrastructure.

6. **Arizona:** Good tax structure, good economic development incentive programs, very low risk of natural disasters, great access to telecommunications infrastructure and good workforce.

7. **Nevada:** Great business climate, excellent tax structure, good access to telecommunications infrastructure, good economic development incentive programs and low risk of natural disasters.

8. **Tennessee:** Very good business climate, good tax structure, affordable and available electricity, very good access to telecommunications infrastructure and great economic development incentive programs.

9. **Indiana:** Very good business climate, excellent telecommunications infrastructure, affordable and available electricity, very good economic development incentive programs and reasonable tax structure.

10. **New Mexico:** Good tax structure, very good telecommunications infrastructure, low risk of natural disasters, affordable and available electricity and aggressive economic development incentive programs.

There are certainly other states that offer a good location to companies looking to new site a new data center facility, but the aforementioned states are the ones that stand out in terms of the key factors for data center projects. Every project is different in some way and should be evaluated based upon its own individual set of circumstances. By identifying the key factors impacting a project, site selection advisors and companies can reach an informed decision regarding where to locate a new data center facility. Carefully designed methodology, when combined with thorough analysis and experienced advisors, usually lead to a successful outcome for companies.

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